

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-06 FRB-03 INR-07 IO-10 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 SS-15

NSC-05 AGR-05 L-03 STR-04 FMC-01 DOTE-00 XMB-02 INT-05

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TO SECSTATE WASH DC 7242

INFO AMEMBASSY ATHENS

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E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: RESULTS OF EDRC REVIEW OF GREECE, MAY 13

REFS: (A)USOECD 11614

(B) OECD DOCUMENT EDR(75)9

1. SUMMARY: GREEK DELEGATION, LED BY DIRECTOR-GENERAL LEMONIAS OF COORDINATION MINISTRY, GENERALLY MORE OPTIMISTIC THAN SECRETARIAT ABOUT PROSPECTS FOR GREEK ECONOMY IN 1975. GREEKS EXPECT GDP TO RISE 2.7 PERCENT, CONSUMER PRICES 15-16 PERCENT (DECEMBER TO DECEMBER), AND UNEMPLOYMENT TO REMAIN WITHIN REASONABLE LIMITS. THEY BELIEVE MAIN PROBLEM FOR 1975 IN FINANCING OF LARGE CURRENT ACCOUNT DEFICIT EQUAL TO 1974 DEFICIT OF \$1.2 BILLION. GREEKS SEE SHORTFALL OF ABOUT \$150 MILLION UNDER CURRENT FINANCING ARRANGEMENTS, AND WOULD LIKE TO OBTAIN AN ADDITIONAL 100 MILLION TO PERMIT BUILD-UP OF RESERVES TO 1973 LEVELS. FINANCING NEEDS COULD BE GREATER IF EXPECTED 25 PERCENT INCREASE IN EXPORT

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VALUES DOES NOT MATERIALIZE DURING YEAR OF WORLD-WIDE

RECESSION. END SUMMARY.

2. OUTPUT AND EMPLOYMENT: GREEKS EXPECT 2.7 PERCENT GROWTH OF GDP (AT FACTOR COST), WHICH IS SLIGHTLY HIGHER THAN SECRETARIAT FORECAST (AT MARKET PRICES) OF 1.5 TO 2 PERCENT. GREEKS SEE UPTURN IN SECOND HALF, WITH MAIN IMPETUS FROM GOVERNMENT EXPENDITURES AND INVESTMENT AND ONLY MODEST INCREASES IN PRIVATE CONSUMPTION (PLUS 2.7 PERCENT) AND INVESTMENT (PLUS 1.8 PERCENT). UNEMPLOYMENT NOT CONSIDERED TO BE SOCIAL PROBLEM AT PRESENT. GREEKS CONFIRMED (IN RESPONSE TO U.S. QUESTION) THEIR EXPECTATION THAT GROWTH OF DOMESTIC DEMAND WILL BE SUFFICIENT TO MAINTAIN PRESENT LABOR FORCE LEVELS. HOWEVER, TOTAL EMPLOYMENT WILL NOT GROW IN 1975 AND NEW ENTRANTS TO LABOR MARKET AND RETURNING MIGRANTS (5-10,000 NET REFLOW) MAY SWELL RANKS OF UNEMPLOYED. GREEKS NOT OVERLY CONCERNED ABOUT MIGRANTS, SINCE MANY WILL REPATRIATE SAVINGS TO SET UP SELF-EMPLOYED BUSINESSES.

3. POLICY STANCE: GOG NOT PREPARED TO AIM AT HIGHER GDP GROWTH RATE IN 1975 BECAUSE OF ADVERSE IMPACT ON BALANCE OF PAYMENTS AND INFLATION. HOWEVER, THEY CONFIRMED THAT THEY ARE PREPARED TO ACTIVATE DRACHMA 5 BILLION INVESTMENT RESERVE FUND IF PRIVATE SECTOR PERFORMANCE DOES NOT IMPROVE, AND THEY INDICATED THAT POSITIVE DECISION TO ACTIVATE WOULD PROBABLY BE TAKEN AT END OF JUNE.

4. PRICES AND WAGES: GREEKS ARE RELATIVELY LESS CONCERNED ABOUT INFLATION THAN SECRETARIAT, ARGUING ADDITIONAL PRICE IMPETUS WOULD BE DANGER ONLY AT 5 OR 6 PERCENT RATE OF GROWTH OF GDP. DESPITE DOUBTS EXPRESSED BY SOME EDCR MEMBERS, GREEKS STUCK TO THEIR FORECAST OF 15-16 PERCENT PRICE INCREASE BETWEEN DECEMBER 1974 AND DECEMBER 1975. (GNP DEFLATOR AT FACTOR COST EXPECTED TO BE 14.4 PERCENT FOR FULL YEAR 1975 OVER 1974.) GREEKS DID NOT THINK THAT 5.5 PERCENT RISE IN CONSUMER PRICES IN FIRST THREE MONTHS OF 1975 COULD BE EXTRAPOLATED INTO 20 PERCENT INCREASE FOR YEAR (AS FORE-

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CAST BY SECRETARIAT), SINCE RECENT INCREASES IN FARM PRICES, PUBLIC SERVICES AND INDIRECT TAXES WERE ALREADY REFLECTED IN FIRST QUARTER FIGURES. THEY ALSO NOTED THAT LABOR UNIONS HAD AGREED TO ACCEPT MODERATE INCREASE IN WAGES AVERAGING 15 PERCENT DURING 1975, AND BUSINESS WOULD FIND IT DIFFICULT TO RAISE PRICES DURING PERIOD OF DEPRESSED DEMAND.

5. U.S. DEL, SUPPORTED BY SECRETARIAT, EXPRESSED DOUBT THAT 15 PERCENT RATE OF INFLATION WAS SUFFICIENTLY LOW TARGET FOR BOTTOM OF BUSINESS CYCLE, SINCE RECOVERY LATER THIS YEAR AND NEXT WOULD CREATE NEW PRESSURE ON PRICES. SECRETARIAT POINTED OUT THAT UNDER GOG TARGET, PRICES COULD ONLY RISE ANOTHER 10 PERCENT IN FINAL NINE MONTHS OF 1975 (SINCE PRICES ROSE 5 PERCENT IN FIRST QUARTER) AND THIS MIGHT BE OVERLY OPTIMISTIC. GERMAN DEL SUGGESTED THAT SECRETARIAT PLACE MORE EMPHASIS ON NEED

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FOR CONTROL OF INFLATION IN ITS CONCLUSIONS, SINCE RISK OF UNEMPLOYMENT DID NOT SEEM TO BE AS GREAT AS IMPLIED IN SECRETARIAT DRAFT.

6. PUBLIC SECTOR: GREEKS EXPECT TOTAL PUBLIC SECTOR DEFICIT TO REACH DRACHMAS 50-55 BILLION IN 1975. THIS INCLUDES 31 BILLION DEFICIT ON INVESTMENT ACCOUNT,

9 BILLION DEFICIT ON "CONSUMPTION ACCOUNT," AND REMAINDER ATTRIBUTABLE TO PUBLIC CORPORATIONS. GOVERNMENT BUDGET DEFICIT OF 31 BILLION WILL BE FINANCED HALF BY SHORT-TERM TREASURY BILL SALES TO BANK OF GREECE AND HALF BY FOREIGN BORROWING. DESPITE IMPLICATIONS FOR INFLATION OF FINANCING THROUGH CENTRAL BANK, GREEKS CONSIDER INTEREST RATES TOO HIGH TO JUSTIFY FINANCING ON PRIVATE CAPITAL MARKETS. THEY MAY, HOWEVER, ISSUE SOME MEDIUM-TERM PAPER OF ABOUT THREE-YEARS MATURITY.

7. BALANCE OF PAYMENTS: GREEKS EXPECT CURRENT ACCOUNT LIMITED OFFICIAL USE

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DEFICIT TO BE APPROXIMATELY SAME AS IN 1974 AT \$1.2 BILLION. THEY EXPRESSED CONFIDENCE THAT EXPORTS WOULD GROW 25 PERCENT IN VALUE BY 1975, OF WHICH 20 PERCENT WOULD BE VOLUME INCREASE. U.S. DEL AND SECRETARIAT BOTH NOTED THAT VOLUME INCREASE OF THIS MAGNITUDE WOULD BE REMARKABLE PERFORMANCE DURING YEAR OF GENERALIZED RECESSION IN MAIN TRADING PARTNERS, TO WHICH GREEKS REPLIED THAT THEIR EXPORTS WERE HIGHLY DIVERSIFIED AND ACCOUNTED FOR ONLY VERY SMALL SHARE OF FOREIGN MARKETS. ON INVISIBLES ACCOUNT, TOURISM RECEIPTS EXPECTED TO IMPROVE WHILE SHIPPING AND REMITTANCES DECLINE, WITH NET RESULT OF SOME DETERIORATION IN THIS ACCOUNT.

8. FINANCING REQUIREMENTS: GREEKS HOPE TO FINANCE ABOUT \$700 MILLION VIA FOREIGN BORROWING AND REMAINDER VIA CAPITAL INFLOWS. THUS FAR, THEY HAVE ARRANGED FOR \$550 MILLION IN FOREIGN FINANCING OF WHICH \$230 MILLION FROM IMF (\$185 MILLION FROM OIL FACILITY, \$215 MILLION IN EURODOLLAR LOANS, AND ABOUT 100 MILLION COMBINED FROM EUROPEAN INVESTMENT BANK, IBRD, GERMANY AND FRANCE. THIS LEAVES ABOUT \$150 MILLION STILL TO BE FINANCED, PLUS ANOTHER \$100 MILLION IF GREEKS ARE TO REBUILD SCANT RESERVES TO 1973 LEVELS. GREEKS SAID THEY WELCOME FOREIGN INVESTMENT AS LONG AS IT IS "PRODUCTIVE" AND BRINGS IN FOREIGN EXCHANGE.
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